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FINANCIAL SECTOR ASSESSMENT PROGRAM

ALBANIA

CORPORATE SECTOR FINANCIAL REPORTING

TECHNICAL NOTE

FEBRUARY 2014

This Technical Note was prepared in the context of a joint IMF-World Bank Financial Sector Assessment Program mission in Albania during October - November, 2013. The note contains technical analysis and detailed information underpinning the FSAP assessment's findings and recommendations. Further information on the FSAP program can be found at <http://www.imf.org/external/np/fsap/fssa.aspx>, and www.worldbank.org/fsap.



THE WORLD BANK

FINANCIAL AND PRIVATE SECTOR DEVELOPMENT VICE PRESIDENCY

EUROPE AND CENTRAL ASIA REGIONAL VICE PRESIDENCY

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GLOSSARY

- A&A ROSC** - Accounting and Auditing Report on the Observance of Standards and Codes
- CFREP** – Corporate Financial Reporting Enhancement Project of World Bank currently under implementation in Albania.
- COREP** – COREP or Common Reporting is the name used to describe the recently mandated reporting requirements for capital and risk within the EU.
- FINREP** - a standardised EU-wide framework for reporting financial (accounting) data
- IFAC**– International Federation of Accountants
- IASB** – International Accounting Standards Board
- IFRS** – International Financial Reporting Standards
- ISA** – International Standards on Auditing
- NAS** – National Accounting Standards
- PIE** – Public Interest Entities

Corporate Sector Financial Reporting in Albania: Status and Recent Achievements¹

A. Executive summary / Financial sector related issues

1. **Overall, financial reporting legislation in Albania has a high degree of alignment with the EU *acquis communautaire*. As noted below, it needs further revisions in certain areas that would enable (i) further alignment of the legislation with the EU *acquis communautaire* and good international practice, and (ii) making sure that all the legal provisions are operational, especially those related to monitoring and enforcement.** The legislation contains differentiated financial reporting requirements, including requirements to apply International Financial reporting Standards (IFRS) for Public Interest Entities (PIEs), and National accounting standards (NAS) for other entities. The requirements to have financial statements audited by independent auditors in accordance with International Standards on Audit (ISA) are in place.

2. **Some changes need to take place in short-to-medium term, to tackle issues related to financial reporting requirements and audit oversight (see also section D).** The following are most critical legislation amendments needed: (i) the law on accounting and financial statements - definition of Public Interest Entities (PIEs) that are required to apply IFRS needs further revision to limit these entities to those that are economically significant or represent the public interest due to nature of their business; (ii) the law on statutory audit - adequate funding of the audit public oversight system, appropriate institutional arrangements, independence of board members and representation of financial sector regulators in the Public Oversight Board are the key issues that need to be addressed to enable proper function of public oversight and quality assurance; (iii) the law on statutory audit - revising the requirements to have financial statements audited to fully align with the EU *acquis*; this would (i) revise the list of entities subject to audit requirements and align them with the EU accounting directive, and (ii) in medium-term gradually raise size thresholds that will ease the burden on smaller entities and help the profession to focus on fewer audits with better quality.

3. **The definition of Public Interest Entities (PIEs) needs further revision to limit these entities to those that are economically significant or represent the public interest due to nature of their business.** Public Interest Entities definition should be reasonably interpreted by the National Accounting Council and the accounting law should be revised to exclude small non-bank financial institutions (for example, leasing companies or brokers) that are not of public interest, from the requirement to apply IFRS.

4. **The scope of having financial statements audited is too broad and does not fully take into account the level of public interest in having financial statements audited, as well as capacity of the small audit profession in Albania.** There is a risk of dilution in quality of audit, and also fewer better quality audits contribute to enhancing credibility in audit profession and audited financial information. Although the requirements to have

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financial statements audited are generally in line with the good practice and EU requirements, these need further revision to ensure that the audit is performed only for entities where certain level of public interest exists, and the audit profession has capacity to perform sound quality audits. Audits are required for financial statements of PIEs, all JSCs that apply NAS, and other limited liability entities except small entities as defined by using criteria of assets, revenues and number of employees.

5. Bank of Albania has sufficient powers and undertakes enforcement activities in the area of financial reporting and audit. It needs to continue its efforts to enhance the relationship between general purpose financial reporting and prudential reporting. This effort will need to be sustained with implementation of FINREP² and COREP³. Currently banks prepare general purpose financial statements on the basis of IFRS, and also according to the specific manual (methodology) of the Bank of Albania for regulatory purposes. Bank's financial statements prepared based on IFRS are the ones reported to tax authorities and published in the annual reports.

6. Financial Supervisory Authority (FSA) has sufficient power to enforce financial reporting and audit standards, but it lacks adequate capacity in terms of staffing and resources to be able to discharge this duty effectively. Due to its inadequate financial independence⁴ it is not able to retain staff with suitable qualifications in accounting and auditing that could efficiently monitor and enforce application of standards by entities it regulates. Monitoring and enforcement of financial reporting standards by regulated entities would mean regular review of financial statements, relationship with external auditors and adequate actions in case of non-compliance or in case of qualified audit reports or issues identified by auditors in management letters. It would also include enforcement of transparency requirements for public interest entities and monitoring of public availability of full sets of audited financial statements, as well as reviewing adequacy of corporate governance arrangements related to financial reporting, such as for example existence and function of audit committees that are required for public interest entities by the audit law.

7. The integrity of financial reporting in financial sector would benefit from a well functioning audit oversight system which helps to ensure adequate quality of audits. Although the audit oversight system is created, it needs further development and sustainable institutional framework. This requires further improvements of the law as well as institutional building for Public Oversight Board and IEKA (Chamber of Auditors). Adequate funding of the public oversight system, appropriate institutional arrangements, independence of board members and representation of financial sector regulators in the Public Oversight Board are the key issues that need to be addressed to

² FINREP is a standardised EU-wide framework for reporting financial (accounting) data. It comprises templates for reporting the income statement and the balance sheet, as well as breakdowns of other data.

³ Once Basel II is adopted, Bank of Albania should build a database based on prudential and capital data for analysis and data aggregation. Unlike FINREP which is based on IFRS data, COREP is based on prudential and capital requirements data.

⁴ Although the FSA's main source of funding comes from the charges applied to regulated entities, the FSA does not have sufficient autonomy in spending their budget. Especially this refers to the fact that all the staff of FSA is subject to civil service pay scale and therefore it is difficult to attract and retain qualified and experienced staff from the market.

enable proper function of public oversight and quality assurance. Previous government endorsed the roadmap and action plan for legal amendments and institutional change, prepared under assistance from World Bank. Current government should follow with implementation of the action plan.

8. **While audited financial statements of banks are publicly available, this is not the case with insurance companies and other public interest entities.** Similarly to banks, insurance companies and other public interest entities should be required to make their financial statements and audit report easily accessible by the public. Current insurance and securities legislation provisions requiring disclosure and application in practice are largely inadequate. The EU *acquis* require public availability of audited financial statements for all limited liability entities. While implementation of this requirement will require time and resources (by the national registration center), the first step would be to require all PIEs to make their audited financial statements and annual reports publicly available within the reasonable time frame and in electronic form⁵. The practical solution might be for FSA to issue a specific regulation and require those regulated entities that are PIEs to make their annual financial statements publicly available (through their websites).

9. **The Government of Albania is committed to reform its corporate financial reporting infrastructure and the World Bank Centre for Financial reporting reforms (CFRR) is supporting these efforts under REPARIS program⁶.** The program includes regional dimension that has significant knowledge sharing part (including series of knowledge-sharing activities related to financial reporting by financial sector entities), and national Corporate Financial reporting Enhancement Project (CFREP) that assist the relevant stakeholders at the national level. The ongoing CFREP (funding 1.25 mln. EUR offered by SWISS SECO, timing - March 2011-March 2013) covers a range of technical assistance activities. Recent reforms helped Albania in the following areas: (i) of corporate financial reporting legislation – closer alignment with the EU *acquis communautaire* and a roadmap for further legislation modernization; (ii) enhanced capacity of national standards setter to translate and adopt IFRS and develop national accounting standards for Small and Medium-sized Entities (SMEs); (iii) establishing audit oversight and quality assurance systems; (iv) initiate reforms in accountancy education and certification curricula. The potential second phase of the project (2014-2017) will expand the activities of institutional capacity building, including enforcement activities by financial sector regulators.

⁵ The EU transparency directive (1st directive) requires public availability of audited financial statements within 4 months after the year-end for listed entities.

⁶ The **Road to Europe: Program of Accounting Reform and Institutional Strengthening** (REPARIS) is a regional program aimed at creating a transparent policy environment and effective institutional framework for corporate reporting within South Central and South East Europe. Participating countries/entities include [Albania](#), [Bosnia and Herzegovina](#), [Croatia](#), [Kosovo](#), Former Yugoslav Republic of [Macedonia](#), [Moldova](#), [Montenegro](#), and [Serbia](#). REPARIS is designed around the introduction, implementation, and effective enforcement of relevant portions of the EU *acquis communautaire* with a view to contribute to foreign direct and portfolio investment, foster private and financial sector developments, improve the business environment and investment climate, and facilitate potential integration into (or harmonization with) the European Union. More information is available on www.worldbank.org/reparis.

B. Introduction

10. **This note is prepared as part of the FSAP. Its main objective is to describe the status and recent developments in corporate financial reporting framework in Albania and highlight key issues relevant to financial sector.** The note represents a technical annex to the main FSAP Aide-Memoire and seeks to provide a high level overview of developments since the 2006 Accounting and Auditing Report on the Observance of Standards and Codes (A&A ROSC)⁷, and highlight the areas that are most relevant to the financial sector. The Annex 1 to this note offers details on status of implementation of 2006 A&A ROSC policy recommendations and was based on the team's knowledge of corporate financial reporting reforms in Albania and limited research.

11. **Notable progress has been made in developing modern corporate financial reporting framework in Albania since 2006, especially in improving the statutory framework and efforts to align it with the EU *acquis communautaire*.** However, implementation and enforcement of financial reporting and auditing requirements has been hampered by major capacity and resource constraints. The major consequences are that there is limited financial information on corporate entities available on the market that is reliable for economic decision making or supervision of financial sector entities. The capacity and skills of institutions responsible for accounting and auditing regulation, as well as accounting and auditing profession in Albania need further development.

C. Financial reporting & audit reform since 2006 A&A ROSC

12. The following sections briefly describe the status of various elements of financial reporting infrastructure in Albania and current efforts undertaken by various stakeholders to further modernize it.

Statutory framework

13. The recent developments of statutory framework in accounting and auditing were guided by the 2006 A&A ROSC and the requirements of the EU *acquis communautaire*, especially Statutory Audit directive and Accounting directives, as well as IAS regulation.

Accounting/financial reporting

14. The statutory framework for corporate financial reporting in Albania⁸ establishes differentiated financial reporting and auditing requirements for various entities depending on their economic significance. Though, the requirements need further improvements.

15. **Public Interest Entities (PIEs) have to apply IFRS for their financial reporting, but the definition of PIEs needs further revision so that it covers only those entities which do have significant public interest nature.** Public Interest Entities, defined as listed entities, financial institutions, including banks and insurance companies, and large

⁷ http://www.worldbank.org/ifa/rosc_aa_alb.pdf

⁸ Mainly the law on accounting and financial statements (dated 2004, in effect since 2008), IFRS as translated and adopted in Albania, as well as National accounting standards, which contain a specific standard applicable for micro entities.

entities⁹ have to apply IFRS. Although these requirements aim at establishing requirements to apply IFRS (which are very complex and costly to apply) only for entities with significant public interest, the law also includes other financial institutions similar to banks in the definition of PIEs. As a consequence, certain financial companies, such as leasing and factoring companies which can be smaller in size and not having deposits from general public, still have to apply IFRS. This represents an excessive requirement, and accounting and financial statements law should clarify the definition of PIEs to include only economically significant entities and those entities that are accountable to general public (in the context of Albania these are mainly banks, insurance companies and listed entities). In the meantime, NAC, as the legally competent body to provide interpretation, should publicly clarify that the term used in the law “financial institutions similar to banks” does not include small non-bank financial institutions.

16. Albanian PIEs, including banks and insurance companies, are required to apply IFRS as translated and adopted in Albania (i.e. full version as issued by the International Accounting Standards Board, IASB) as opposed to EU endorsed IFRS, which currently contains certain carve-outs related to financial instruments.

Currently this is less relevant in Albania as banks and insurance entities do not use complex financial instruments in their operations, although it may have some implications for regulatory purposes. As Albania is aligning its standards and practices with the EU requirements, EU-endorsed IFRS will have to be adopted to comply with the IAS regulation¹⁰, instead of IFRS as adopted and issued by the IASB.

17. Although International Financial Reporting Standard (IFRS) translation process has improved recently and ensures timely publication of translation updated, the process may be further enhanced to allow participation of financial sector regulators in the translation review process. Financial regulators need to be involved in the process of IFRS translation into Albanian (IFRS as translated and adopted are the legally applicable standards). Their presence in IFRS translation review committee is recommended to ensure that translations are properly reviewed and financial terminology applied in translations is adequate.

18. Bank of Albania needs to continue efforts to enhance the relationship between general purpose financial reporting and prudential reporting. This effort will need to be sustained with implementation of FINREP¹¹ and COREP¹². Currently banks prepare general purpose financial statements on the basis of IFRS, and also according to the specific manual (methodology) of the Bank of Albania for regulatory purposes. The manual is prepared in 1998 base on IFRSs as of that year. It has not been updated since then. A project is underway at BoA, in cooperation with Banks Association, to bring the

⁹ Exceeding for the last two consecutive years the following thresholds: a) annual revenues 1 250 000 000 lek (~12.5 mln. USD); and b) average number of employees over 100.

¹⁰ Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards

¹¹ FINREP is a standardised EU-wide framework for reporting financial (accounting) data. It comprises templates for reporting the income statement and the balance sheet, as well as breakdowns of other data.

¹² Once Basel II is adopted, Bank of Albania should build a database based on prudential and capital data for analysis and data aggregation. Unlike FINREP which is based on IFRS data, COREP is based on prudential and capital requirements data.

reporting requirements in line with Basel II requirements, and current IFRS. Along this, a new electronic reporting platform (financed by EBRD) will be installed whose reporting templates will reflect IFRS. Bank's financial statements prepared based on IFRS are the ones reported to tax authorities and published in the annual reports.

19. Insurance companies have to apply IFRS in their general purpose financial reporting. FSA is empowered by law to impose additional requirements; in practice this has implications on regulatory reporting. In the recent years FSA has improved its prudential reporting framework and installed an electronic reporting platform which among other ensures consistency in reporting by insurers.

20. As part of differentiated reporting requirements, the national accounting standards (NAS) are required for other entities (SMEs), including specific standard applicable for micro-entities. These standards need further upgrading to fully comply with the EU accounting directive as well as with IFRS for SMEs. Capacity of National Accounting Council (NAC) to both set NAS and translate IFRS was recently improved, and the content of the standards and degree of alignment with the EU accounting directive enhanced. The process of standards setting, including exposure of drafts, discussions and stakeholders participation, was also recently revamped and widened.

21. There is a need to address the issue of harmonization of tax framework with accounting. IFRS and NAS are relatively new frameworks in Albania and their implementation is associated with undue influence by tax regime. This is applicable for both, IFRS and NAS accounting frameworks, and harmonization can include mapping the differences between accounting and tax reporting, and also harmonize to the possible extend recognition and measurement requirements, so that it is easier for preparers to reconcile accounting data with tax returns.

22. The requirements to have financial statements audited are generally in line with the good practice and EU requirements. However the scope of audit requirements needs further revision to ensure that the audit is performed only for entities where certain level of public interest exists and the list of types of entities is fully aligned with the statutory audit directive requirements. Audits are required for financial statements of entities that prepare financial statements in accordance with IFRS (i.e. PIEs), all JSCs that apply NAS, and other limited liability entities except small entities as defined by using criteria of assets, revenues and number of employees. These requirements are not fully aligned with those from the EU accounting directive, which requires audits of all entities with limited liability with exception of small entities as defined as those that are below the size thresholds.¹³ There were more than 2,000 audits

¹³ According to article 34 (1) of the Accounting directive issued in June 2013, Member States shall ensure that the financial statements of public-interest entities, medium-sized and large undertakings are audited by one or more statutory auditors or audit firms approved by Member States to carry out statutory audits on the basis of Directive 2006/43/EC. Small undertakings shall be undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria: (a) balance sheet total: EUR 4 000 000; (b) net turnover: EUR 8 000 000; (c) average number of employees during the financial year: 50. Member States may define thresholds exceeding the thresholds in points (a) and (b) of the first subparagraph. However, the thresholds shall not exceed EUR 6 000 000 for the balance sheet total and EUR 12 000 000 for the net turnover.

carried last year in Albania. The audit profession is small (~200 active auditors) and therefore it may face challenges in dealing with so many audits. In addition, the number of audits if compared to peer countries may be too high for the size of economy.

23. The requirements to make financial statements publicly available are in place, but their application in practice is not adequate. This has implications over transparency of financial and real sectors, public availability of reliable financial information. In addition, public access represent a final point of financial reporting chain, which together with suitable financial reporting, auditing and enforcement requirements contributes to transparency in corporate sector. Only banks consistently apply the requirement to publish their audited financial statements on their websites. Insurance companies are required to publish annual reports with financial periodicals, but the team was not able to find sufficient evidence that this is applied in practice, and even if applied, financial periodicals normally would not have capacity to publish full sets of audited financial statements. In addition, the National Registration Centre is required to make financial statements available in hardcopy upon request against a symbolic fee. Though, the capacity of national registration centre need improvement to be able to fulfill its duties in collecting full sets of audited financial statements and making them publicly available.

Audit

24. The statutory framework on audit was significantly upgraded to introduce the system of public oversight, and adopt International Standards on Audit (ISA) as well as the Ethics code issued by IFAC. This is in line with the EU *acquis communautaire* and good international practice, but as noted below, needs further revision to make the system fully operational. International standards on audit (ISA) as translated are adopted in Albania, as well as IFAC Ethics code which applicable to auditors. The translation process was recently enhanced to ensure timely updates are released and published.

25. Certain key elements of an oversight system are not adequately addressed, such as institutional arrangements and funding. The issues of adequate funding of public oversight system, appropriate institutional arrangements and independence of board members, and representation of financial sector regulators in the board are key issues that need to be addressed to enable proper function of public oversight and quality assurance.

26. The 2009 Law on Audit¹⁴ established a foundation for an audit oversight system, created a Public oversight board (POB) and defined the role of Institute of auditors (IEKA). However, due to resources and capacity constraints, the POB and IEKA are not able to fulfil their oversight and quality assurance duties to effectively influence the quality of audits. The POB has no status of legal entity and does not have executive staff and reliable funding source; also, the independence of the board members needs to be enhanced, as well as representation of the financial sector regulators in the board. IEKA lack appropriate funding and institutional capacity to perform adequate quality assurance activities. Both, the POB and IEKA need to enhance their institutional

¹⁴ Law “On Statutory Audit, Organising of Certified Auditor and Certified Accountant Professions”, Nor.10091, dated 5.3.2009

capacity to be able to adequately discharge their duties in the area of audit oversight and quality assurance. There are some efforts in place to address these issues through legislation modernisation and capacity building through the Corporate Financial Reporting Enhancement Project (CFREP, under REPARIS program, funded by Swiss SECO) and the effort will continue.

27. Although the audit law requires PIEs to establish audit committees to oversee financial reporting and audit on behalf of shareholders, except for banks, not all PIEs have established it and this is not systematically enforced. According to the Statutory audit directive requirements, the audit law (Art.49) requires PIEs (banks, insurance and listed companies) to have Audit Committees. It is observed that insurance companies have not established such committees in practice and the FSA does not enforce this requirement.

Monitoring and enforcement by financial regulators

28. As mentioned above, the audit oversight and quality assurance system, although created, does not have the ability to enforce audit standards and influence the audit quality. Therefore, financial sector regulators cannot fully benefit from the audit oversight. Some quality assurance inspections in a form of monitored peer reviews are ongoing, and tools and methodologies prepared with some external assistance, but it will take additional time and effort before these tools and methodologies will become fully operational. Combined with adequate institutional set-up and funding sources for public oversight system, this may produce the desired effect on improving the audit quality and by implication reliability of financial statements.

29. Bank of Albania (BoA) and Financial Supervisory Authority (FSA) have sufficient powers to enforce financial reporting and auditing standards. However, FSA due to its inadequate financial independence¹⁵ is not able to retain staff with suitable qualifications in accounting and auditing that could efficiently monitor and enforce application of standards by insurance entities and other entities regulated by FSA. In addition to financial resources, it takes time to build sustainable institutional capacity for monitoring and enforcement of financial reporting and auditing requirements. BoA and FSA also have sufficient powers and mechanisms to approve or reject external auditors and they are informed in case the audit contract is terminated. Both, BoA and FSA need to collaborate closely with the POB to exchange information and ensure effective cooperation. This would contribute to enhancing quality of application of standards by both preparers and auditors. The authorities need to expand membership in POB to include representatives from BoA and FSA. Also, the FSA needs to retain qualified staff with adequate financial reporting and auditing skills and experience and enhance its institutional capacity for enforcing financial reporting, auditing and related corporate governance requirements (such as for example existence and function of audit committees) by regulated entities.

¹⁵ Although the FSA's main source of funding comes from the charges applied to regulated entities, the FSA does not have sufficient autonomy in spending their budget. Especially this refers to the fact that all the staff of FSA is subject to civil service pay scale and therefore it is difficult to attract and retain qualified and experienced staff from the market.

Accounting and auditing profession

30. **While the quality of the profession has developed in recent years, it needs significant upgrading in skills to effectively apply IFRS, NAS and ISA.** Some efforts are being undertaken to modernize accountancy curricula in universities and professional bodies. Still further efforts are needed to upgrade skills of accounting and auditing lecturers and processes that would enable reliable examination of university students or candidates to enter the profession; this includes the accountancy curricula, teaching and examination processes, and other elements that ensure developing adequate competences for professionals. The skills upgrading is also needed for professional that are already on the market to address the immediate need for adequate quality of the work by the profession, including practicing accountants, external accounting services providers and auditors.

31. **There is a need to upgrade professional skills is also relevant for enforcement authorities and tax authorities.** Apart from financial sector regulators, national registration centre and tax authority staff needs to undertake skills inventory and update in order to be able to fulfill respective roles. Tax authorities should be able to understand general purpose financial reporting and how it correlates with tax requirements, while national registration centre staff needs to understand the basics in financial statements to be able to properly enforce public filing.

External technical assistance supporting reforms in corporate financial reporting in Albania

32. **The World Bank Centre for Financial reporting reforms (CFRR) is supporting Albania to improve its financial reporting infrastructure under REPARIS program¹⁶.** The program includes regional dimension that has significant knowledge sharing part (including series of knowledge-sharing activities related to financial reporting by financial sector entities), and national Corporate Financial reporting Enhancement Project (CFREP) that assist the relevant stakeholders at the national level. The ongoing CFREP (funding 1.25 mln. EUR offered by SWISS SECO, timing - March 2011-March 2013) covers a range of technical assistance activities in the following areas: (i) modernizing corporate financial reporting legislation; (ii) improving financial reporting standards adoption and setting; (iii) establishing audit oversight and quality assurance; (iv) improving curricula for accountancy education and professional certification. The

¹⁶ The **Road to Europe: Program of Accounting Reform and Institutional Strengthening** (REPARIS) is a regional program aimed at creating a transparent policy environment and effective institutional framework for corporate reporting within South Central and South East Europe. Participating countries/entities include [Albania](#), [Bosnia and Herzegovina](#), [Croatia](#), [Kosovo](#), Former Yugoslav Republic of [Macedonia](#), [Moldova](#), [Montenegro](#), and [Serbia](#). REPARIS is designed around the introduction, implementation, and effective enforcement of relevant portions of the EU *acquis communautaire* with a view to contribute to foreign direct and portfolio investment, foster private and financial sector developments, improve the business environment and investment climate, and facilitate potential integration into (or harmonization with) the European Union. More information is available on www.worldbank.org/reparis.

potential second phase of the project (2014-2017) will expand the activities of institutional capacity building, including enforcement activities by financial sector regulators.

D. Need for action in short term

Corporate sector financial reporting - improving statutory framework	Timeframe for action	Priority	Stakeholder
Revise the definition of Public Interest Entities (PIEs) in the Law on Accounting and Financial Statements to limit these entities to those that are economically significant or represent the public interest due to nature of their business;	Short term	Medium	Ministry of Finance
To enable proper function of public oversight and quality assurance, amend the Law on Statutory Audit to: (i) provide adequate funding of the audit public oversight system; (ii) put in place appropriate institutional arrangements for public oversight board and independence of its members; (iii) ensure adequate representation of financial sector regulators in the Public Oversight Board are in place; and (iv) revise the scope of requirements to have audited financial statements required to fully align with the EU <i>acquis</i> – first types of entities, second – gradually revise size thresholds in medium-term.	Short Term	Medium	Ministry of Finance

Status of implementation of the 2006 A&A ROSC policy recommendations in Albania

	2006 ROSC recommendation	Status of implementation, as of October 2013
1	<p>The statutory framework governing accounting, auditing and financial reporting should be enhanced using a holistic approach, taking into account other laws and regulations, including company law, tax law, etc.</p>	
1.1	<p>Prepare an audit law compliant with the Eighth EU Company Law Directive to include, but not limited to, the establishment of a public interest oversight system for the audit profession, enhanced quality assurance for statutory audits, and regulations on the registration of local and foreign auditors, including audit firms.</p>	<p>Partially Addressed</p> <p>The new Law On Audit¹⁷ (2009) is based on the key provisions of EU Statutory Audit Directive (SAD) and calls for establishing a public oversight system. A significant role in public oversight is assigned to IEKA, which in fact plays the role of chamber of auditors. IEKA is subject to oversight by the Public Oversight Board, which consists of 7 members selected from the market and nominated by the Minister of Finance; the board has representatives of the profession in minority. The law however does not provide for a adequate funding as required by the art. 21 of statutory audit directive.</p> <p>The law also contains requirements for entering the audit profession, registration of auditors and audit firms, requires ISA as translated in Albanian to be applied by auditors and requires establishment of internal and external quality assurance systems. It also has provisions to recognise the role of professional accountancy bodies and established light regulation on certified accountant profession.</p> <p>According to the Statutory audit directive requirements, the law provides the requirement (Art.49) for the Public Interest Entities (banks, insurance and listed companies) to have Audit Committees. It is observed that insurance companies have not established such committees in practice and the FSA does not enforce this requirement.</p> <p>However, application of the law in practice faces certain problems as current arrangements for the Public Oversight System (POS) do not ensure adequate implementation of the law requirements. Public Oversight Board (POB) functions and division of roles with the IEKA (Chamber of Auditors), related to quality assurance, need to be further clarified and detailed. Adequacy of funding remains an issue and long-term sustainability of financing scheme of POS should be resolved. Independence of the POB members from the profession it oversees is also identified as an issue. The POB should comprise</p>

¹⁷ Where Law on Audit is mention it means Law “On Statutory Audit, Organising of Certified Auditor and Certified Accountant Professions”, No.10091, date 5.3.2009

		<p>a majority of purely independent members as per the requirements of the EU SAD.</p> <p>Efforts are underway to address these issues, which would also entail amendments to the Law on Audit. World Bank is supporting the efforts through the implementation of Corporate Financial Reporting Enhancement Project (CFREP).</p>
1.2	<p>Establish appropriate thresholds for simplified financial reporting requirements and exemption from annual statutory audit, including the proxies used to determine economically significant entities. This will avoid burdening SMEs with excessive financial reporting and auditing requirements. Conversely, it will ensure that <i>public interest entities</i> are subject to more demanding transparency and disclosure requirements. This should be done through an analysis of the business structure in Albania.</p>	<p>Partially addressed</p> <p><i>Financial reporting requirements:</i></p> <p>According to accounting law¹⁸, IFRS are to be applied by public interest entities. IFRS in context of Albanian law are those that are developed by IASB, translated into Albanian language under authority of National Accounting Council with no changes to original English text. IFRS, are required for listed companies, banks, <u>financial institutions similar to banks</u>, insurance companies, investment funds and all companies licensed to carry investment activities in securities, even when not listed in an official stock exchange, and large companies with annual revenues beyond LEK 1,250 mln (apx. USD 12.5 mln) and number of employees over 100.</p> <p>National Accounting Standards apply to the rest of companies. Micro entities (revenues of less than apx. USD 100,000, and less than 10 employees) apply a simplified standard (NAS 15).</p> <p>It is to note that the law does not provide crisp clarity as per use of IFRS (or not) by small non-bank financial institution (leasing, factoring, etc) which do not take deposits or funds through some other means from the public, or that are not owned by banks. According to the Statutory Audit Directive, in this respect, “public interest entities” refer to credit institutions which are “<i>undertakings whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.</i>”</p> <p>Also, the use of term “investment activities in securities” leaves room for interpretation, for instance it is not clear whether small brokerage companies, small investment advisors, etc., are required to use IFRS.</p> <p>The law should be amended to address these issues and provide clear indications with regard which entities are required to apply IFRSs. In the mean time, NAC, as the legally competent body to provide interpretation should publicly clarify that the term used in the law “financial institutions similar to banks” does not include small non-bank financial institutions.</p> <p><i>Requirements to have financial statements audited (Statutory Audit requirements)</i> are generally in line with the principles of the EU accounting directive. However, the accounting directive</p>

¹⁸ Where Law on Accounting is mention it means Law “On Accounting and Financial Statements” No. 9228, dt 29.04.2004. Article 4 of the law, which establishes the accounting standards applicable to business entities, entered in force on January 1, 2008.

		<p>principle is that small entities are exempted from audit requirements, and this principle is not fully implemented. Combined with unclear definition of PIEs (see above) this may create an excessive audit requirement for small and micro entities. Also, to note that the thresholds for audit requirements applied for limited liability entities in Albania are significantly lower as compared to the directive requirements; this may be justified in the context of Albanian market, but at the same time puts Albanian SMEs in a different position (with higher cost of doing business by SMEs) in the context of the EU single market principle. Therefore in medium-term these will need to be reviewed and revised as appropriate.</p> <p>Statutory audit of the annual financial statements of is mandatory for:</p> <ul style="list-style-type: none"> – companies that apply the IFRSs, irrespective of their legal form; – joint stock companies that apply the National Accounting Standards for financial reporting; – limited liability companies that apply the National Accounting Standards in cases where, at the end of the financial year, two out three of the following requirements are met: <ul style="list-style-type: none"> • the total assets are equal to or greater than Lek 40 million (~USD 0.4 million); • the annual turnover is equal to or exceeds Lek 30 million (~USD 0.3 million); • the average annual number of employees is equal or exceeds 30. <p>There were more than 2000 audits carried last year in Albania. The audit profession is small (~200 auditors) and therefore it may face challenges in dealing with so many audits. In addition, the number of audits if compared to peer countries may be too high for the size of economy.</p>
1.3	<p>Require <i>public interest entities</i> to make their legal entity (and consolidated) financial statements readily available to the public within a reasonable period after the balance sheet date.</p>	<p>Partially addressed</p> <p>The banking legislation provides clear and meaningful requirements for the banks to make readily available to the public the annual financial statements, including the auditor's report, within the first half of the subsequent year¹⁹. Interim reports are also required to be published. This obligation is complied in practice by banks.</p> <p>Insurance companies are required by the Insurance Law to publish in a financial periodical their annual report which includes financial statements and a summarised auditor's report, no later than 6 months from the end of calendar year. There is no evidence that this is strictly followed in practice, and even if it</p>

¹⁹ The EU transparency directive requires listed entities to make their financial statements publicly available within 4 months after the year-end. This requirement is not very relevant to Albania as there are no listed entities in practice.

		<p>was it is not adequate. There is no requirement for insurance companies to publish the financial statements and auditor's report in the company's web page. Very few insurance companies publish the annual accounts regularly in their web page.</p> <p>There are no listed companies in Albania, though the Securities Law provides requirements for publishing information and the Financial Supervisory Authority is entitled to issue more detailed requirements for reporting.</p> <p>The Law on National Registration Centre requires all companies to submit within 31 July with the NRC the annual financial statements and auditor's report. This information can be accessed (only in hardcopy) by the general public at NRC against a small fee.</p>
1.4	Harmonize the tax framework with accounting, auditing and financial reporting legislation. IFRS and NAS will introduce new categories of revenues and expenses, therefore guidance will need to be given on how to reconcile the accounting profit/loss with the taxable profit/loss. In the absence, of guidance entities will intermingle tax and accounting standards in the preparation of financial statements.	<p>Not addressed</p> <p>No meaningful harmonisation of tax framework with accounting/auditing framework has happened. A detailed analysis of differences needs to be prepared mapping the requirements of financial reporting to tax rules and identifying ways to harmonise where possible. World Bank (through CFRR) intends to include this topic in a new project of technical assistance on financial reporting, expected start in 2014.</p>
2	The accounting standard setting structure should be enhanced to make it sustainable	
2.1	Expand the current standard setting body to include a broader range of stakeholders in order to systematically address the needs of private and public sector stakeholders in the standard setting-process, including the appropriateness of the scope of IFRS and NAS application, that is simplified reporting requirements for SMEs and more rigorous reporting requirements for <i>public interest entities</i> .	<p>Mostly addressed</p> <p>The National Accounting Council (NAC) is made up of a mix constituency of interests. It is mandated to have nine members, as follows:</p> <ol style="list-style-type: none"> 1. Two members proposed by professional organizations; 2. Two members are proposed by the economic faculties; 3. Two members are proposed by the Union of Commerce and Trade Chambers; and 4. Three members are proposed by the Minister of Finance.
2.2	Mobilize funding and technical expertise in order to ensure that the accounting standards are up-to-date.	<p>In principle the Ministry of Finance could include in representatives from the financial and bank regulators among its three proposals for NAC membership, though this hasn't been the case in practice. Including representatives of financial sector in standards setting process is very much relevant, especially banking community which is one of the main users of financial statements prepared by entities that apply NAS.</p>
2.3	Document, disseminate and implement a clear strategy for the drafting and adoption of standards, which includes an effective consultative process. This will help address the low level of awareness and implementation of accounting standards currently exhibited.	<p>IFRS translation process has improved recently and under CFREP the most recent consolidated version of IFRS is translated into Albanian and published. Financial sector entities have the obligation to report under IFRS; however, the review</p>

		<p>committee which reviews translation of IFRSs does not include representatives from the Financial regulators which may cause issues in translation of terms relevant to financial sector.</p> <p>Recently, the standard setting process was improved (with the support of World Bank through CFREP project). Several steps are added in the procedure in order to improve its transparency and broader participation of stakeholders and providing appropriate application guidance to promote compliance. The National Accounting Standards are reviewed and the process of discussion and exposure is initiated.</p>
2.4	<p>Explore synergies with respect to translating accounting and auditing standards according to International Accounting Standards Committee Foundations (IASCF) and IFAC translation policies. The NAC should explore opportunities to collaborate with the auditing standard-setter, including pooling resources and using common software.</p>	<p>Addressed</p> <p>IFRS and ISA translation processes seek synergies where possible through collaboration between the NAC and IEKA. Under World Bank's support, National Accounting Council and IEKA (Chamber of Certified Auditors) are equipped with TRADOS software to facilitate the translation process. A joint protocol is in place for pooling resources. Trainings are also provided to the designated translators. The translation process as a result is greatly improved and is now in line with IFAC translation policies. Recent version of consolidated IFRS is translated and published by NAC. The Albanian translation of International Auditing Standards is being updated and expected to finalise within 2013.</p>
2.5	<p>Banking and insurance regulators to engage in international forums exploring the relationship between prudential and general purpose financial statements in order to design prudential filters. This would address regulators' concerns that application of IFRS could jeopardize regulatory criteria of own funds and introduce volatility in the financial statements. In this context, the Bank of Albania should have regard to (i) the guidelines on a common reporting framework (COREP) to be used by credit institutions and investment firms when they report their solvency ratio to supervisory authorities under the Capital Requirements Directive, and (ii) the guidelines establishing a standardized financial reporting framework (FINREP) for credit institutions operating in the EU. This framework enables credit institutions to use the same standardized data formats and data definitions for prudential reporting in all countries where the framework is applied, reducing the reporting burden for credit institutions that operate cross-border, and lower barriers to the development of an efficient internal market in financial services. This is particularly important in the context of Albania where a significant portion of the</p>	<p>Partially addressed, some activities in progress</p> <p>Banks and Insurance regulators have increased their awareness on the application of IFRS, and links with prudential reporting and supervision. Both, Bank of Albania and the Financial Services Authority participate in international forums and have taken steps to update their reporting requirements. The World Bank CFRR, under the REPARIS program has also organized several regional workshops under topic "<i>IFRS for financial sector regulators</i>", where representatives of Bank of Albania and Financial Supervisory Authority have participated.</p> <p>Bank of Albania has finalized the draft of a new regulation on capital adequacy, which has to pass a broad discussion process with the industry before implementation. Along with the work for drafting this regulation, particular attention has been paid to the compilation of the reporting framework to the Bank of Albania based on COREP standard of the European Banking Authority. A new electronic prudential reporting system is being installed. Bank of Albania is also implementing a project to adopt the IFRS for regulatory reporting purposes, as a needed element for a full adoption of the Basel II framework. Insurance companies have to apply IFRS in their general purpose financial reporting. FSA is empowered by law to impose additional requirements; in practice this has implications on regulatory reporting. In the recent years FSA has improved its prudential reporting framework and installed an electronic reporting platform which among other ensures consistency in reporting by</p>

	banking sector is foreign owned.	insurers.
3	A sustainable auditing standard setting structure should be created.	
3.1	Establish a sustainable auditing standard-setting process, ensuring the translation of ISAs and developing relevant audit practices, especially for SMEs.	Addressed According the Law on Audit (2009) International Auditing Standards issued by IAASB are translated into Albanian by IEKA in accordance with IFAC translation policy and are applicable for all statutory audits in Albania. The Albanian translation of International Auditing Standards is being updated and expected to finalise within 2013.
3.2	Mobilize funding and technical expertise to ensure that ISA are translated in a timely manner. This could include exploring synergies with respect to translating IFRS.	<i>See comment 2.4 on the translation assistance</i>
4	A systematic institutionalized monitoring and enforcement mechanisms should be established to ensure compliance with accounting and auditing standards.	
4.1	Update legislation to clearly outline the authority of regulatory bodies to enforce accounting and auditing standards and to modernize the sanctions currently existing in order to make them better deterrents. While they were developed in the context of listed companies, Albania may wish to have regard to the principles of accounting standard enforcement set out by the Committee of European Securities Regulators. Qualified audit reports should trigger investigations of the entities and unqualified audit reports, which should have triggered a qualification, should also lead to investigation of the audit firm.	Mostly Addressed An Audit Oversight System was introduced through the new Law on Audit of 2009. Under this legislation Public Oversight Board was created. The law foresees disciplinary sanctions for auditors. Both the Bank of Albania and the Financial Supervisory Authority have the power to approve each year the auditors of banks and insurance companies respectively. They have issued specific regulations that impose additional requirements to the auditors with regard to what should be reported for the regulator's purposes. Auditors have the obligation to report immediately to the regulator any material fact that is in breach of the legislation. A qualified opinion normally triggers an investigation by the regulators. Both BoA and FSA have the power to ask for re-audit and to disallow the auditor to perform audits in the future. Public Oversight Board has put some efforts into establishing cooperation with the financial regulators, but with little practical exercise. According to legislation the POB has the authority to investigate the audit firms. Financial regulators would benefit from cooperating with POB. This warrants for a stronger and properly functional POS and greater direct participation of financial regulators in the POS (for example through membership of their representatives in POB, as well as through regular exchange of information).
4.2	Establish a system of quality assurance subject to public oversight. Quality assurance for the statutory audit is fundamental for ensuring good audit quality, which adds credibility to published financial information and adding	In progress - being addressed The new Law on Audit (2009) requires the establishment of a quality assurance system subject to public oversight. The World Bank (under CFREP project) is currently supporting the Public

	<p>value and protection to shareholders, investors, creditors and other stakeholders. The system may draw upon existing practices in EU Members States, especially countries, which joined the EU on May 1, 2004, which have had to implement quality assurance systems in circumstances similar, albeit not identical, to Albania's. Also, IFAC SMO 1, <i>Quality Assurance</i>, is a useful guideline in this regard. The results of the external quality assurance system should feed into the Continuing Professional Development program and/or the disciplinary system, as appropriate.</p>	<p>Oversight Board and IEKA to establish such a system. Currently the functioning system of monitored peer review is in operation by IEKA and POB, which identify eligible inspectors from practicing auditors that can be engaged in quality assurance activities. Once the POS/QAS funding issue is resolved, the system should move towards independent quality assurance activities.</p> <p>The following activities are being undertaken with expected completion by the end of 2013:</p> <ul style="list-style-type: none"> - Development of regulatory improvements and support for implementation at national level, and both firm-wide and engagement level based upon IFAC SMO-1 and meeting the requirements and recommendations implied in the EU "<i>acquis communautaire</i>"; - Development of regulations that compel adoption and compliance with auditor ethical requirements as promulgated by IESBA and ethical requirements from Statutory audit directive; - Development of methodology and guidance to support quality assurance at firm (i.e. compliance by firms with ISQC1) and engagement level (compliance with ISAs), with tools to facilitate monitoring of the application of the requirements; - Drafting a complete quality control manual, including guidelines, methodologies and tools to support quality control by IEKA for all statutory audits and the POB for public interest entities as a mean for independent assessment of the quality of audit engagements performed by the statutory auditors and/or audit firms; - Development and delivery of training to existing and potential quality control reviewer on implementation of quality manual and procedures; - Development of regulations and guidelines that compel adoption and compliance with auditor ethical requirements as promulgated by IESBA and the Code of Ethics, as well as EU statutory audit directive requirements; - Developing case studies to strengthen teaching of ethics, trainings, and 15 pilot audit inspections which would result with a due decisions/sanctions by IEKA and POB;
4.3	<p>Require statutory auditors and audit firms that conduct statutory audits of <i>public interest entities</i> to prepare and publish annual transparency reports. These reports should include a description of the network and its legal and structural arrangements, where the audit firm belongs to a network; information on the governance structure of the audit firm; a description of the internal quality control system; a list of the <i>public interest entities</i> which were audited by the audit firm during the years; and other relevant information that would assist users of the financial statements to gain confidence in the quality of the audit</p>	<p>Addressed</p> <p>Article 45 of the Law on Auditing (2009) provides the requirement for preparation and publishing of transparency report within 3 months from close of the year by audit companies that audit banks, listed companies and insurance companies. The legal review made under WB support spotted that the legal provisions of Art. 45 lack the requirement for the transparency report to state that it has to contain information concerning the basis for the partners' remuneration as required under EU directive (Art. 40 of Statutory Auditing Directive of 2006).</p> <p>It is observed that this requirement is mostly respected by audit</p>

	work conducted.	companies, though not always in consistent manner (i.e. in one case the team found that the transparency report for 2012 was not published by one of the auditors of PIEs, which 2011 was available).
4.4	<p>Establish an effective system of investigations and sanctions to detect, correct and prevent inadequate execution of the statutory audit. The system may provide effective, proportionate and dissuasive civil, administrative or criminal penalties in respect of statutory auditors and audit firms, where statutory audits are not carried out in conformity with the Audit Law, ISA, and/or the Code of Ethics for Professional Accountants. Also, every measure taken or sanction imposed on statutory auditors and audit firms should be appropriately disclosed to the public. The system may draw upon existing practices in EU Members States and IFAC SMO 6, <i>Investigation and Discipline</i>, is a useful guideline in this regard.</p>	<p>Partially addressed</p> <p>The new Law on Audit provides adequate requirements for the authority of the Public Oversight Board to investigate and impose sanctions on auditors and audit firms. Though, public oversight system lacks the necessary arrangements and capacities for application of investigative and disciplinary powers.</p> <p>POB and IEKA, under support from World Bank, are working to improve the system of investigation and disciplinary sanctions. The following activities are being currently undertaken:</p> <ul style="list-style-type: none"> - reviewing and improving POB/IEKA internal regulations in order to bring to account those who fail to maintain high professional standards; - draft guidelines and methodologies on establishing a just system of investigations and discipline; - make sure that the I&D system includes a link to the Public Register of Statutory Auditors, and a facility that enables users of audit services to provide feedback and complaints relating to suspected breaches of professional or ethical requirements; - make sure that the I&D system facilitates early investigation of public interest cases, and also generate regular reports, to be available to the public, that provide information on the operation of the system (number of complaints received, number of investigations, summary of outcomes and summary of remedial/disciplinary actions); - Support the development of public outreach activities to educate auditors, users and the wider public on the I&D scheme. <p>The above mentioned activities will be finalized by the end of 2013, though full application in practice would be properly effected once POB's status and funding issues are resolved.</p>
4.5	<p>Adequately staff, in terms of numbers and expertise, the bodies responsible for monitoring and enforcement. Reviewers must have expertise to review financial statements to determine whether the accounting standards have been complied with. Likewise, reviewers of audit firms should have the capacity to assess whether the internal control mechanisms within firms are adequate and effective to ensure the performance of high quality audits.</p>	<p>Partially addressed</p> <p>Current set-up of the Public Oversight System does not allow for an effective carrying of monitoring and enforcement activities. The Public Oversight Board is not adequately funded, and there isn't clarity with regard to whether POB should as a rule perform its own inspections on PIEs audits, or oversee the quality control activities of IEKA. IEKA also is not able to staff the function of quality assurance activities and properly fund them.</p> <p>Under WB/REPARIS sponsored CFREP project (components 1 & 3), proposals are put forward to the government with regard to the status, independence and funding of POB, as well as for the improvement of overall oversight system, by providing among</p>

		<p>others clear guidelines on the profile of POB members as well as role and functions of POB and IEKA and options for funding. The Government should select which option is more suitable and get it approved in the legislation.</p> <p>Bank of Albania supervision department is adequately staffed in terms of quantity and knowledge to review and review financial statements to determine whether the accounting standards have been complied with.</p> <p>Financial Supervisory Authority on the other hand suffers from lack of both financial and structural (ability to increase number of staff) independence that would allow to them to hire people with advanced knowledge on accounting and auditing.</p>
4.6	<p>Enhance the register of statutory auditors and audit firms so that interested parties can determine rapidly whether a statutory auditor or an audit firm has been approved, etc. This will be facilitated through registration in a public electronic register. Availability of the public register in foreign language would greatly increase its usefulness especially in the context of foreign direct or portfolio investment.</p>	<p>Partially addressed</p> <p>Public register of auditors is maintained by IEKA. According to the law on Audit the register is published only in the Albanian language and its content is based on the requirements of statutory audit directive.</p> <p>Public Register of auditors is being enhanced under support from WB (CFREP project component 3). Once it is finalised (till end of 2013) it will be online, accessible and searchable by public.</p>
5	<p>The professionalism and the quality of the work done by the accounting and auditing profession should be improved</p>	
5.1	<p>Clarify IEKA's mandate to include serving the public's interest.</p>	<p>Addressed</p> <p>Article 12 of the Law on Auditing clarifies that IEKA's has as its goal to ensure that audit profession is carried in full compliance with public interest, and that the reputation and independence of its members is respected.</p>
5.2	<p>Remove audit fee rate setting by the Government, which currently restricts the scope and quality of auditors work. Instead more reliance should be placed on the quality assurance review and investigation and disciplinary process to monitor auditor independence and audit quality.</p>	<p>Addressed</p> <p>There is no audit fee setting by the government. IEKA has established benchmarks with regard to minimal hours and costs needed for the audit, which are used for quality control purposes.</p>
5.3	<p>Seek (full) membership of international bodies, such as IFAC and, over time the European Federation of Accountants. Membership in these international bodies often provides the discipline and structure to help local professional bodies adhere to minimum standards, which helps them improve.</p>	<p>Addressed</p> <p>IEKA is a full member of IFAC since November 2008, as well as member of Federation of Mediterranean Accounting Experts, and International Federation of Francophone Accountants. Membership in IFAC has put some pressure on IEKA to closely observe compliance with SMOs.</p>

5.4	Clarify the role and responsibilities of Certified Accountants and consider the merits of a regulatory underpinning.	<p>Addressed</p> <p>The Law on Audit (2009) provides definition of Certified Accountant profession, as well as prescribes basic requirements for education, certification and organisation into associations.</p> <p>There is some level of regulation for accountants that provide external accounting services. According to the law provisions, commercial companies can either hire accountants as their employees or they can outsource the service. In case they outsource, only certified accountants can be hired. Thus incentives are established for creating demand for certified accountants. Certified accountants have to fulfil some basic criteria on education and experience, pass a series of tests, and become members of professional associations of accountants.</p>
6	<p>The number of accounting and auditing professionals able to prepare high quality financial statements and conduct high quality audits, respectively, should be increased. Initiatives to attract bright graduate to the profession and to raise the recognition of the accounting and auditing qualifications in Albania should also be launched.</p>	
6.1	Revamp the university accounting curriculum to include more material on IFRS, ISA, business ethics and corporate governance.	<p>In progress - being addressed</p> <p>Two public universities and professional organisations of auditors and accountants have joined efforts (under support from World Bank – CFREP project) to review and update accounting and auditing curricula for university education and professional certification.</p> <p>Specifically, there are several activities are under progress:</p> <ul style="list-style-type: none"> - Preparing a benchmark core program of education compliant with IFAC International Education Standards (IES) to be used by Universities and professional bodies of accountants and auditors. - - Improving teaching process through training and workshops about new curricula and training materials. - Increasing the awareness of benefits in using improved curricula from <p>All activities are expected to be completed by the first quarter of 2014. Further follow up would be needed with regard to expanding the training materials and rolling out the new curricula. World Bank intends to continue support in 2014 in this respect.</p>
6.2	Provide incentives for individuals to join the profession. Incentives could be by way of government and business entities offering	There is no evidence that government and business entities have been offering scholarships for university students to study

	scholarships for university students to study accountings.	accounting or offer other incentives for individuals to join the profession.
6.3	Update the qualification standards in line with IFAC IES. This would include updating the content of the professional examination syllabus, the content of the professional examination and the assessment of the examination in order to include critical areas that are currently omitted. This would lead to better qualified professionals and better recognition of the qualification. Given the shortage of resources in Albania, synergies should be explored between the education and qualification of accountants and auditors.	<p>In progress of being addressed jointly with university education</p> <p>(see comment at 6.1)</p>
	Coordinate and facilitate training courses, particularly in the areas of IFRS and ISA, taught by regional and international experts. Accounting and auditing courses should progress from basic to advanced level. In addition, courses should be provided in specialist areas such as financial reporting and auditing of banks and insurance companies.	<p>Partially addressed</p> <p>Training courses are being offered frequently by IEKA and accountants professional bodies, mostly to their members. World bank under its REPARIS program has offered regional workshops on various accounting and auditing topics including specific courser for financial regulators. Still there is a need for a wider outreach, especially towards financial regulators, fiscal authorities and universities.</p>
6.4	Systematically monitor members for CPD compliance and considering suspending licenses of members for non-compliance.	<p>Addressed</p> <p>According to Article 25 of the 2009 Law of Audit, statutory auditors must realize CPD through various forms of professional and educational activities of the Professional Bodies. CPD is compulsory and last at least 40 hrs per year. This is achieved by organizing workshops, panels and round tables etc in accordance with the IEKA's annual program. It is also required that a CPD certification is filed with IEKA. The IEKA council approves the monitoring and assessment procedures on members for continuing professional development. As part of the assessment process, the council may approve to organize testing of knowledge gained during CPD. This must happen not less than every three years and not more than every five years. IEKA publishes monitoring results with a copy to the POB.</p> <p>The content of CPD however needs further development and strengthening to be able to address the need of upgrading skills of professionals that operate on the market.</p> <p>Article 52 of the Law on Audit provides also CPD requirement for the certified accountants, to the extent of the body of knowledge required under their certification, monitored by the professional associations of accountants.</p>
6.5	Establish a professional accountancy education centre to provide up-to-date training in accountancy, auditing and financial	<p>Addressed</p> <p>No such single centre exists and the Government decided to</p>

	reporting and other related subject areas.	strengthen existing institutions rather than creating a new one. The government has opted to empower professional bodies for the provision of training on accounting and auditing. The Law on Audit provides requirements for candidates for certified auditors and certified accountants to attend professional courses organised by professional bodies.
6.6	Establish or re-establishing linkages with international accountancy professional bodies.	<p>Addressed</p> <p>IEKA (chamber of Auditors) is a full member of IFAC and also a member of Federation of Mediterranean Accounting Experts, and International Federation of Francophone Accountants. Albanian Institute of Chartered Accountants was recently accepted as an associated member of IFAC.</p>